

Message Text

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PAGE 01 ABU DH 01643 011314Z
ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EUR-08 INR-05 CIAE-00 NSC-05
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FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC PRIORITY 6172
INFO AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABI 1643

LIMDIS

E.O. 11652: GDS
TAGS : EFIN, TC
SUBJECT : CRISIS FORCES NEW UAE BANKING POLICIES AND PERSONNEL

REF: (A) ABU DHABI 1585 (B) ABU DHABI 1613

SUMMARY: UAE BANKING SECTOR CRISIS (REFTELS) HAS PRECIPITATED
LONG POLICY AND PERSONNEL AWAITED DECISIONS. PRESIDENT SHAIKY
ZAYID HAS ACTED ON IMF RECOMMENDATIONS TO TIGHTEN CONTROL OVER
OPERATION OF BANKING SYSTEM, AND ALSO HAS AGREED TO TRY STRONGLY TO
CONVINCE DUBAI TO PERMIT ESTABLISHMENT OF UAE CENTRAL BANK.
AT SAME TIME, RON SCOTT, CURRENCY BOARD GM, HAS BEEN RE-
PLACED BY AN ADMINISTRATIVE COMMITTEE. SHAKE-UP GENERALLY
THOUGHT TO REFLECT HIGH-LEVEL AWARENESS THAT BANKING
SECOTOR'S UNREGULATED GROWTH IS POTENTIALLY HARMFUL TO
NATIONAL ECONOMIC WELFARE. END SUMMARY.

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PAGE 02 ABU DH 01643 011314Z

1. ACCORDING TO AUTHORITATIVE SOURCE, IN EFFORT TO RE-
SOLVE CRISIS, UAE PRESIDENT SHAIKH ZAYID HAS ACCEPTED IMF/ HIGH
LEVEL UAE GROUP URGING THAT NEW POLICIES BE ADOPTED TIGHTENING CON-
TROL OVER BANKING SECTOR. BANKS WHICH ARE INHERENTLY SOUND
WILL BE HELPED. CREDIT WILL BE TIGHTLY CONTROLLED. NO DE-
CISION HAS BEEN MADE YET ON TREATMENT OF DEPOSITORS IN TWO
FAILED BANKS. (EXPERTS WANT THEM PROTECTED; ZAYID THINKS

IT WOULD BE "LESSON" IF THEY WERE NOT.) FULL SCALE, CRASH ANALYSIS OF "REAL STATE" OF BANKING SYSTEM WILL BE UNDERTAKEN AS SOON AS IT CAN BE ORGANIZED AND REPORT WILL BE BASIS FOR FURTHER ELABORATION OF POLICY. UAE WILL BRING WITHIN WEEKS THREE IMF EXPERTS TO STAY FOR INDEFINITE TERM TO HELP GET HANDLE ON SYSTEM.

2. SECOND RECOMMENDATION OF GROUP--TO CREATE CENTRAL BANK-- IS MORE DIFFICULT TO IMPLEMENT. ZAYID IS CONVINCED OF NEED, HOWEVER SHAIKH RASHID, RULER OF DUBAI, REMAINS TO BE PERSUADED. NEXT SEVERAL WEEKS WILL SEE EFFORT TO THAT EFFECT BY EXPERTS AND BY ABU DHABI LEADERSHIP. DUBAI HAS AGREED IN PRINCIPLE TO ASSIST ABU DHABI IN FUNNELLING ADDITIONAL AMOUNTS OF FOREIGN EXCHANGE INTO CURRENCY BOARD, BUT HOW MUCH IS NOT DECIDED. ONE SPECIAL STICKING POINT ON CENTRAL BANK ESTABLISHMENT FOR DUBAI IS FACT THAT CENTRAL BANK WOULD GET ALL FOREIGN EXCHANGE.

3. INFO IN BOTH PRECEEDING PARAGRAPHS IS NOT WIDELY KNOWN YET IN UAE. ONLY PUBLIC PRONOUNCEMENT HAS BEEN FEDERAL DECREE ANNOUNCED MAY 30 WHICH SETS UP AN ADMINISTRATIVE COMMITTEE OF THREE UAE OFFICIALS TO TAKE OVER RESPONSIBILITIES OF RON SCOTT, MANAGING DIRECTOR OF CURRENCY BOARD. SCOTT, WHO WILL REMAIN AS A MEMBER OF CURRENCY BOARD, IS EXPECTED TO ACT AS ADVISOR IN NEAR TERM TO TRIUMVIRATE CONSISTING OF: NASSER AL-NUWAIS (US EDUCATED ABU DHABIAN, NOW DEPUTY DIRECTOR OF ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT); AHMED AL-TAYER (DUBAIAN DIRECTOR OF MINISTRY OF FINANCE); ABDALLAH MOHAMED AL MAZRUI (ABU DHABIAN VICE CONFIDENTIAL

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PAGE 03 ABU DH 01643 011314Z

CHAIRMAN OF ABU DHABI NATIONAL BANK). THIS COMMITTEE WILL DIRECT OPERATIONS FOR NEAR FUTURE WHILE FURTHER EXAMINATION OF POSSIBLE REORGANIZATION OF CURRENCY BOARD AND BANKING SECTOR IS EXAMINED, BUT IT IS NOT EXPECTED TO BE LONG-LASTING.

4. COMMENT: OBVIOUSLY, THIS IS STILL ACT II OF SCENARIO. DUBAI HAS NOT ACQUIESCED IN CREATION OF CENTRAL BANK. AGREEMENT THAT HAS BEEN REACHED THUS FAR IS TO DO OBVIOUS HOUSE-CLEANING (ONE FAILED BANK'S LIABILITY TO CAPITAL RATIO WAS 1000 TO 1). SCOTT IS BEING QUIETLY SINGLED OUT BY LOCALS FOR CRITICISM OF CURRENCY BOARD MANAGEMENT. THEY SAY THAT HE SHOULD HAVE BEEN TOUGHER AND KEPT BANKS' EXHUBERANCE IN CHECK. WE SAY THAT, FROM OUR VANTAGE POINT, HE WORKED UNDER SEVERE CONSTRAINTS GIVEN FRAGMENTED AUTHORITY WHICH HE POSSESSED AND INFLUENCE WHICH OTHER EMIRATES' RULERS HAVE HAD ON ZAYID.

5. HIGH LEVEL ATTENTION FOCUSED IN LAST WEEKS ON PROBLEM MAKES IT LIKELY THAT BANKING SECTOR POLICIES WILL FINALLY BE

CONSIDERED IN RELATION TO OVERALL GROWTH AND DEVELOPMENT
POLICIES OF UAE. IN OUR VIEW, ACTION IS OVERDUE. HOWEVER,
FAULT LIES LESS IN ECONOMIC KNOW-HOW OF CURRENCY BOARD AND
MORE IN DEFICIENT POLITICAL WILL-POWER AT FEDERAL LEVEL.
DICKMAN

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